

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 EUR-03 NSC-04 NSCE-00 TRSE-00 INR-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5882

INFO AMEMBASSY BONN

AMEMBASSY BERN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 16397

LIMDIS GREENBACK

PASS TREASURY AND FRB

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: H.M. TREASURY ON INTERNATIONAL MONETARY DEVELOP-  
MENTS

SUMMARY: SENIOR H.M. TREASURY OFFICIAL REPORTS THAT OCTOBER 30 EC MONETARY COMMITTEE MEETING WILL HAVE THREE MAJOR ITEMS ON ITS AGENDA: PROBLEMS OF FINANCING BUDGETARY DEFICITS; SWISS REQUEST FOR PARTICIPATION IN EC SNAKE; AND GOLD. IF FORTHCOMING EC BORROWING ATTEMPT FROM KUWAIT AND SAUDI ARABIA IS SUFFICIENTLY SUCCESSFUL, UK MAY ASK TO BE INCLUDED IN SHARE OUT OF PROCEEDS. MONETARY COMMITTEE IS IN PROCESS OF ESTABLISHING A WORKING GROUP TO COORDINATE EC POSITIONS FOR FINANCIAL COMMISSION OF PREPCOM. NO FURTHER DEVELOPMENTS ON A POSSIBLE UK BORROWING FROM IMF

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WHICH NOW APPEARS UNLIKELY. END SUMMARY

1. SENIOR HMT OFFICIAL HAD TOUR D'HORIZON WITH FINANCIAL ATTACHES ON INTERNATIONAL MONETARY DEVELOPMENTS. A MAJOR ITEM ON AGENDA OF NEXT WEEK'S EC MONETARY COMMITTEE WILL BE DISCUSSION OF FINANCING OF BUDGET DEFICITS AND THEIR IMPACT AND INTERRELATIONSHIP ON EC ECONOMIES. CONTRARY TO USUAL FORM, EC COMMISSION HAS PRODUCED A GOOD AND THOUGHT PROVOKING PAPER ON IMPLICATIONS FOR EC COUNTRIES, INCLUDING ECONOMIC POLICY COORDINATION, OF DIFFERING ATTITUDES TOWARDS FINANCING BUDGETARY DEFICITS. THIS INCLUDES DIFFERENT NATIONAL POLICIES WHICH MAY BE EITHER MORE KEYNESIAN OR MORE MONETARIST IN THEIR APPROACH. ENTIRE SUBJECT HAS MAJOR IMPLICATIONS FOR LONG-TERM COORDINATION OF ECONOMIC POLICIES AMONG EC COUNTRIES, ESPECIALLY IF THERE IS TO BE A MORE MEANINGFUL ATTEMPT IN FUTURE AT ECONOMIC INTEERATION. COMMENTING ON MORE CURRENT AND PAROCHIAL ISSUES, SOURCE SAID IT WAS "ABSOLUTELY MONSTROUS THAT GERMANS SHOULD BE PLANNING TO BORROW INTERNATIONALLY, TAPPING MARKETS THAT THE UK ITSELF MIGHT HAVE HOPED TO USE EMMINGER WILL BE PRESSED HARD TO EXPLAIN WHY IT IS NECESSARY GIVEN LETEL OF GERMAN RESERVES.

2. UK EXPECTS THE FRENCH WILL CONTINUE TO STALL ON SWISS MEMBERSHIP IN THE EC SNAKE. UK CONSIDERS PART OF FRENCH HESITATION CLEARLY IDENTIFIED IN THEIR REQUESTS FOR SWISS TO BETTER CONTROL CAPITAL MOVEMENTS, BUT A SECOND AREA OF HESITATION MIGHT BE EFFECT ON THE FRENCH FRANC SHOULD THE SWISS ENTER THE SNAKE; I.E., IT COULD BE COSTLY TO THE FRENCH IN TERMS OF RESERVES UNDER SNAKE CLEARING ARRANGEMENTS. SUPPORT AND OPPOSITION TO SWISS MEMBERSHIP IN SNAKE IS TO SOME DEGREE PERSONAL RATHER THAN NATIONAL' WITH ARDENT SUPPORTERS OF SWISS MEMBERSHIP INCLUDING THOSE OFFICIALS WHO MOST FAVOR A RETURN TO A MORE STABLE EXCHANGE RATE REGIME. THIS PLACES SOME FRENCH DELEGATES IN A PARADOXIAL SITUATION. UK IS MAKING ITS OWN RESERVATIONS ON SWISS ENTRY MORE OBVIOUS. UK CONSIDERS THAT THE EC NEEDS GREATER ECONOMIC CONVERGENCE BEFORE IT CAN ARRIVE AT MONETARY CMNVERGENCE. SWISS ARE NOT EC MEMBERS. THERE IS NO WAY OF BINDING THEM TO EC MONETARY COMMITTEE DECISIONS AND SWIQS ECONOMY MAY BE STRUCTURALLY DIFFICULT TO CONFIDENTIAL

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ABSORB INTO SLAKE OPERATIONS. THIS MUCH SAID, UK WILL TAKE A LOW-KEY ATTITUDE, LETTING THE FRENCH CARRY BURDEN OF OPPOSING SWISS ENTRY. RATIONALE IS THAT UK HAS NO INTENTION OF MAKING ANY COMMITMENT OF ITS OWN TO RETURN TO THE SNAKE.

3. TURNING TO INTERNATIONAL MONETARY ISSUES, SOURCE DID NOT ANTICIPATE ANY DISCUSSION OF EXCHANGE RATE REGIME AT

NEXT WEEK'S SESSION. EC COUNTRIES ARE LEAVING THE ISSUE TO THE US AND FRANCE TO BE RESOLVED BILATERALLY. GOLD WILL CERTAINLY BE CONSIDERED. DISCUSSION WILL PROBABLY CENTER ON DIFDERING LEGAL VIEWS AS TO WHETHER IMF GOLD SALES AND RESTITUTION CAN PROCEED ON A SYMMETRICAL BASIS. FRENCH LAWYERS CONSIDER THAT THEY CAN PROCEED SYMMETRI-

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 16397

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CALLY ACKNOWLEDGING IMF RULES WOULD NEED TO BE BENT BUT NOT BROKEN. MTHERS DO NOT AGREE. EC MONETARY COMMITTEE HAD AGREED THAT THESE TWO ELEMENTS SHOULD GO FORWARD ON A ROUGHLY PARALLEL OR SYMMETRICAL BASIS. SOME COUNTRIES, FRANCE AND BELGIUM WERE MENTIONED, CAN BE EXPECTED TO POSE DIFFICULTIES IF RESTITUTION DOES NOT ACCOMPANY IMF GOLD SALES. ON THE OTHER HAND, UK, IRISH, DUTCH AND PROBABLY GERMANS WOULD ARGUE THAT GIVEN THE PRESSING NEED TO MAKE AVAILABLE RESOURCES TO LDCS, THERE IS A STRONG CASE FOR

ALLOWING IMF EOLD SALES EVEN IF RESTITUTION CANNOT BE MADE CONCURRENTLY.

4. SOURCE CONFIRMED INFORMATION ON EC COMMON BORROWING FROM SAUDI ARABIA AND KUWAIT IN BRUSSELS 9574. HE ADDED THE IRISH HAVE REQUESTED 200 MILLION DOLLARS OF PROCEEDS AND ITALIANS THE REMAINDER, ADDING THAT THE BRITISH HAVE A RESERVATION ON THIS POINT THAT WOULD ALLOW THEM TO PAR-CONFIDENTIAL

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TICIPATE. CUPRENT UK THINKING IS THAT SHOULD THE EC MAN-AGE TO BORROW UP TO 700 MILLION DOLLARS, THE UK WOULD NOT REQUEST PARTIAIPATION IN BORROWING PROCEEDS. IF THE EC IS ABLE TO BORROW 800 MILLION DOLLARS OR MORE, UK WOULD SEE IRELAND TAKING 200 MILLION DOLLARS AND THE UK POSSIBLY SPLITTING REMAINING DIFFERENCE WITH THE ITALIANS. ASIDE FROM SAUDI ARABIA AND KUWAIT, UK DOES NOT AT THIS TIME SEE ANY OTHER OPEC COUNTRIES AS POTENTIAL LENDERS, VENEZUELA HAVING APPARENTLY DEFINITELY DROPPED OUT. UK WILL CONTINUE TO EXPLORE DIRECT BORROWINGS FROM POTENTIAL OPEC LENDERS, INCLUDING SAUDI ARABIA.

5. SOURCE GAVE NO INDICATION OF IMMINENT REQUEST FOR IMF BORROWING. SAID HE HAD NO IDEA WHY UK FINANCIAL PRESS HAD PLAYED UP LIKELIHOOD OF ONE. FYI SOME WEEKS AGO THIS POSSIBILITY WAS DESCRIBED TO US AS AN OPTION UNDER CONSIDERATION, BUT UK OFFICIALS CURRENTLY DON'T APPEAR TO HAVE IN MIND MAKINE A REQUEST. CHANCELLOR IN HIS PUBLIC STATEMENTS BLOWS HMT AND COLD ON THE SUBJECT, IN ONE SPEECH CITING IMF RESOURCES SHOULD THE UK NEED TO USE THEM, IN ANOTHER PUBLIA COMMENT DESCRIBING NEWSPAPER SPECULATION OF A DRAWING AS NONSENSE, SAYING UK WILL HAVE NO DIFFICULTY IN FINANCING ITS BALANCE OF PAYMENTS DEFICIT THIS YEAR. BASED ON ISOLATED COMMENTS, INCLUDING THAT IN PARA 1 ABOVE FINANCIAL ATTACHE BELIEVES UK MAY BE EYEING PRIVATE MARKETS AS A POSSIBILITY FOR TAKING SOME FUNDS, IN PART BECAUSE OF DIFFICULTIES INVOLVED IN GETTING LEFT-WING OF LABOR CABINET TO AGREE TO RESTRAINTS AND UNDERTAKINGS THAT WOULD BE IMPOQED BY DRAWING ON IMF. END FYI.

6. WHEN EXPLAINING US POSITION ON IFC CAPITAL REPLENISHMENT TO HMT OFFICIALS, WE HAVE NOT HAD ANY CONFIRMATION OF REPORT IN BRUSSELS 9372 THAT THE MONETARY COMMITTEE IS ORGANIZING A WORKING GROUP TO REVIEW INTERNATIONAL PROPOSALS AFFECTING IMF/IBRD ACTIVITIES. UK OFFICIAL WHO REPORT EDLY IS A CANDIDATE TO BE CHAIRMAN OF THE GROUP INDICATES THAT THE MONETARY COMMITTEE WILL PROBABLY ESTABLISH A WORKING GROUP TO COORDINATE EC POSITIONS FOR DISCUSSIONS IN THE FINANCIAL COMMISSION OF THE PREPCOM. CURRENT THINKING IS THAT THE EC MONETARY COMMITEE ALTERNATES GROUP

WOULD BE THE APPROPRIATE STRUCTURAL BASE ON WHICH TO ESTAB  
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LISH SUCH A GROUP PROBABLY USING PERSONNEL FROM THE VAN  
YPERSELL (TWP) COMMITTEE. THIS WOULD HAVE THE PRACTICAL  
EFFECT OF WEIEHTING THE REPRESENTATION HEAVILY IN TERMS  
OF TREASURY ALD FINANCE MINISTRY RATHER THAN CENTRAL BANK  
PERSONNEL.

7. PLEASE TREAT THE MESSAGE AS NOFORN.

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## Message Attributes

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